



LGIP QUARTERLY MEETING & CONFERENCE CALL

11.1.2012

OFFICE OF THE ARIZONA STATE TREASURER



AGENDA

- **LGIP Performance**
- **Endowment Performance**
- **Endowment Distribution Formula**
- **State Cash Flow**
- **Guest Presentation: Dr. Jim Paulsen,
Chief Investment Strategist for Wells
Capital Management**
- **Q & A**



INVESTMENT PHILOSOPHY

SAFETY

before

LIQUIDITY

before

YIELD



EARNINGS FOR FY 2013 YTD

\$29,673,076





LGIP PERFORMANCE

Q1 FY2013



POOL 5

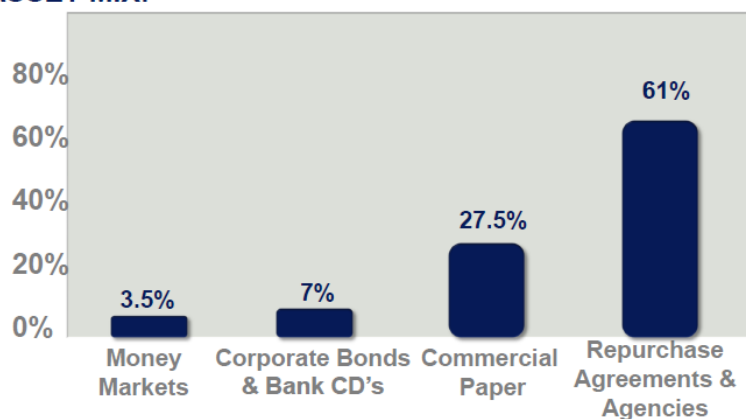
- \$1.12 Billion Assets as of 9/30/2012
- Net Asset Value - \$1.000 9/30/2012
- Diversified investments weighted to highly rated Commercial Paper, Repurchase agreements, and Agency/Treasuries
- Focus is to add to CP names greater than 30 days maturity

Liquidity

Weighted Average Maturity: 34 days on 9/30/2012

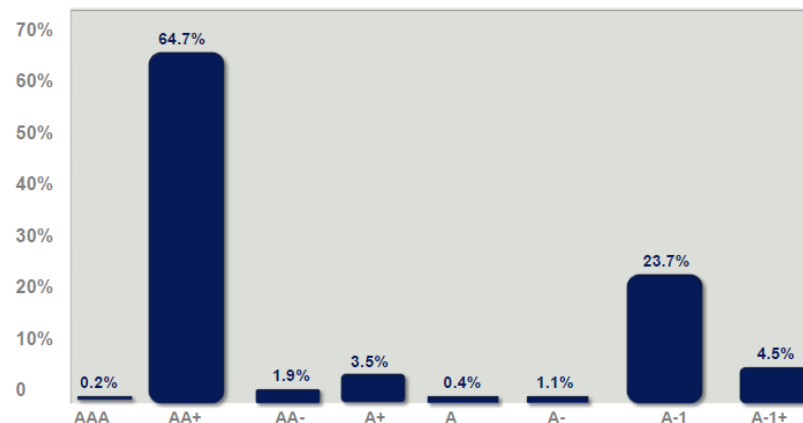
DURATION: 100% from 0-1 yrs

ASSET MIX:



Safety

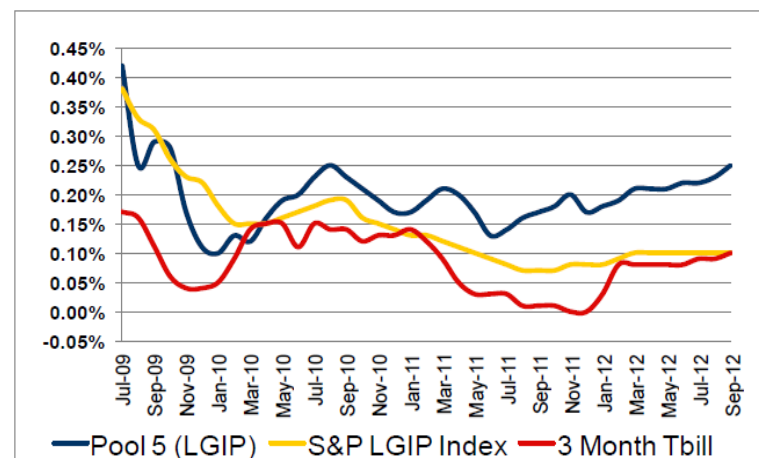
Continues to receive highest rating from Standard & Poor's: AAAf/S1+



Yield

.23% FYTD

.10% FYTD (S&P LGIP Index)



ARIZONA STATE TREASURER DOUG DUCEY

POOL 7

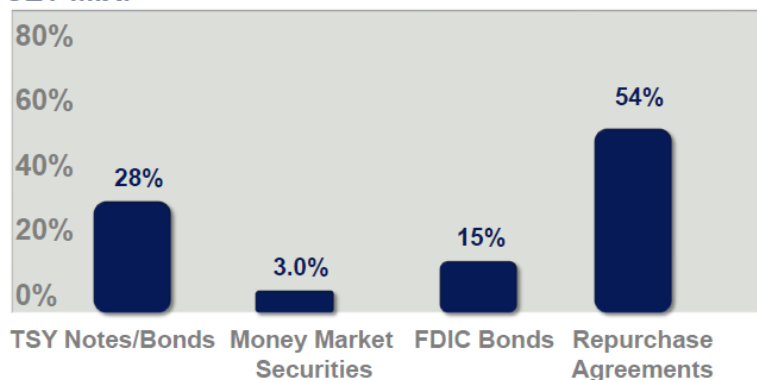
- \$1.29 Billion Assets as of 9/30/2012
- Net Asset Value - \$ 1.000 9/30/2012
- Repo market eased in the most recent quarter. TLGP bond program expires Dec. 31, 2012. Will be looking to purchase some assets into January to mitigate any fiscal cliff issues.
- Looking to ladder treasuries/repo and other full faith and credit products up to 13 month horizon
- WAM will increase but stay under 90 days.

Liquidity

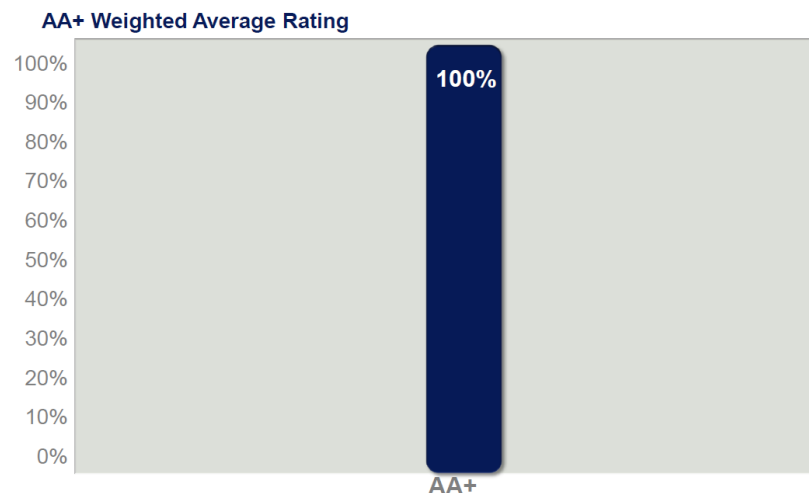
Weighted Average Maturity: 54 days on 9/30/2012

DURATION: 100% from 0-1 yrs

ASSET MIX:



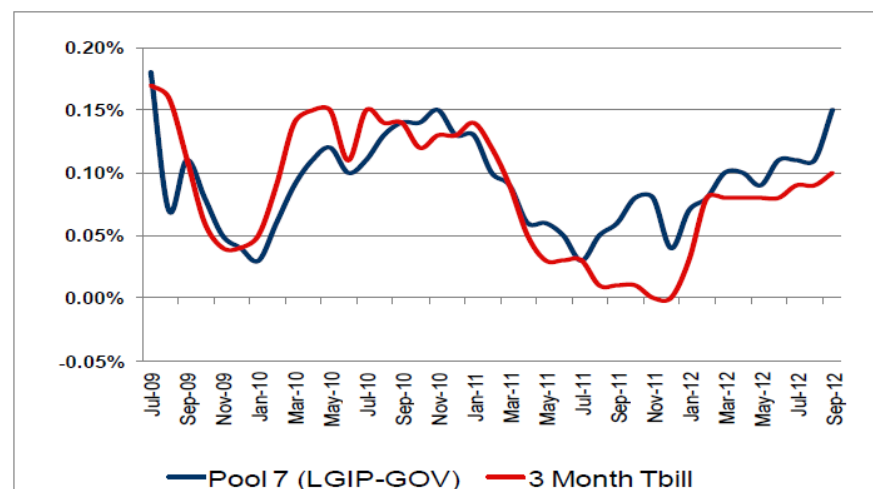
Safety



Yield

.12% FYTD

.09% FYTD (90 DAY T BILL)



POOL 500

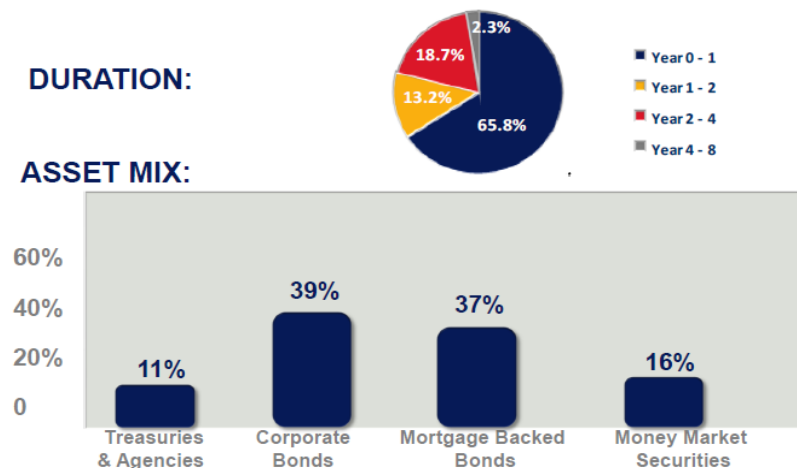
- \$268.8 million in assets as of 9/30/2012
- Floating Net Asset Value - \$1.0469 9/30/2012
- Will continue to invest in assets that provide a prudent diversification that takes advantage of prevailing market opportunities
- Keep maximum exposure to any credit below 2.5%
- Continue to target duration at one year less than the benchmark with 10% to 30% of the fund in liquid short term securities

Liquidity

Effective Duration: 1.01 years on 9/30/2012

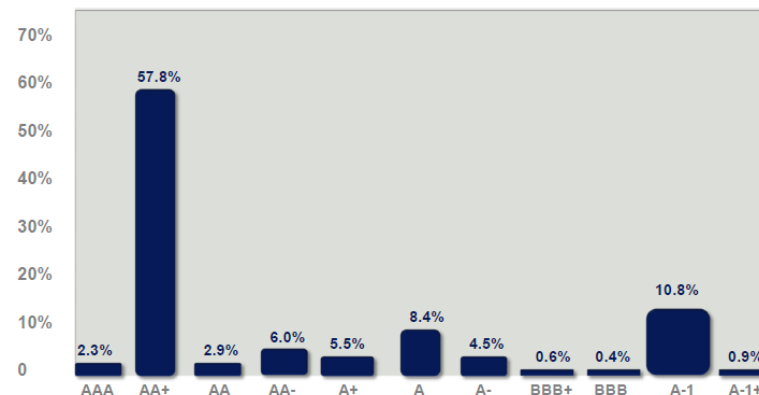
DURATION:

ASSET MIX:



Safety

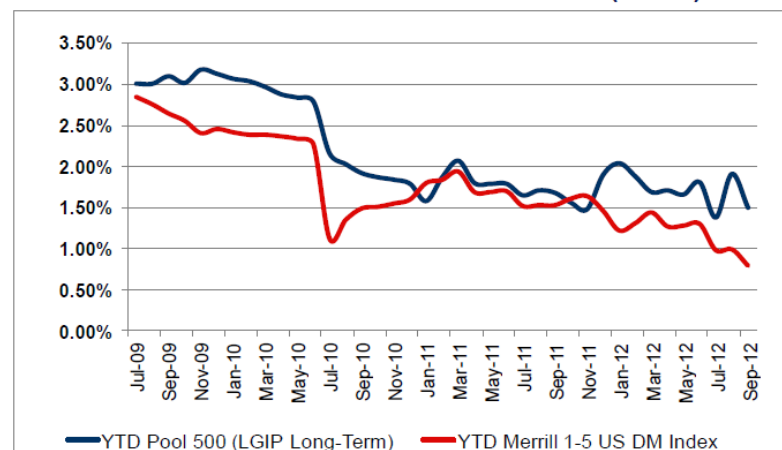
AA Weighted Average Rating



Yield

1.60% FYTD

0.92% FYTD (Index)



ARIZONA STATE TREASURER DOUG DUCEY

POOL 700

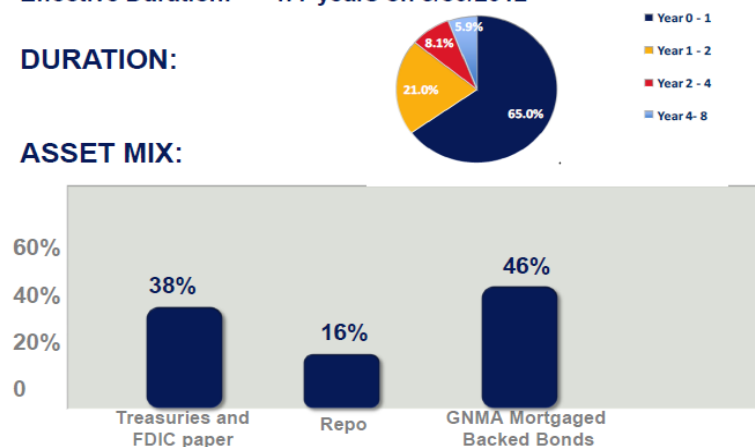
- \$229.3 million in assets as of 9/30/2012
- Floating Net Asset Value - \$ 1.0197 9/30/2012
- Strategy is to invest in a mix of 1-5 year US Treasuries, GNMA Mortgages and FDIC Paper
- All securities backed by US Government
- Continue to target duration at one year less than the benchmark and swap out fast-paying GNMA mortgage back securities with newer mortgage back securities that can withstand government re-finance efforts

Liquidity

Effective Duration: .77 years on 9/30/2012

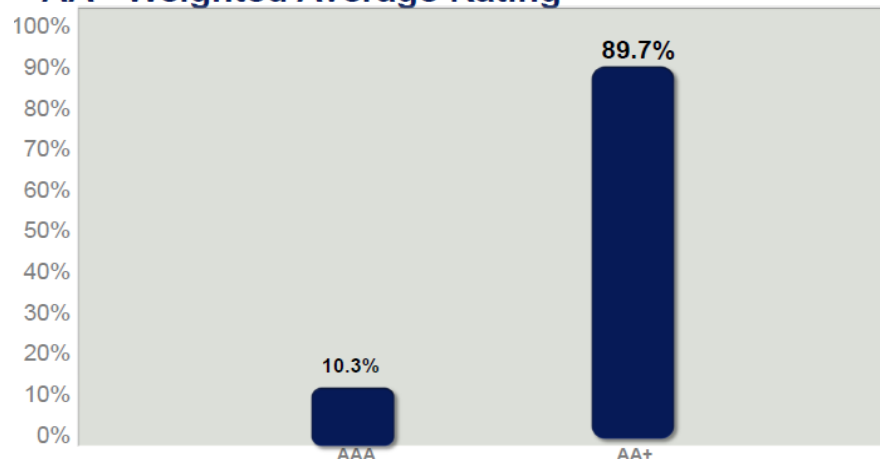
DURATION:

ASSET MIX:



Safety

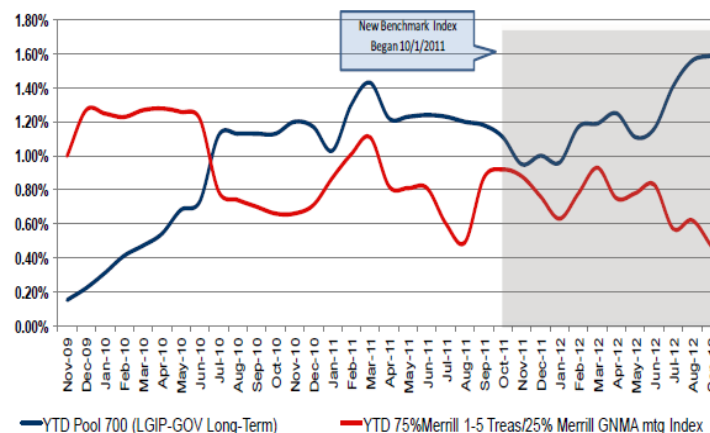
AA+ Weighted Average Rating



Yield

1.52% FYTD

0.55% FYTD (Index)



ARIZONA STATE TREASURER DOUG DUCEY

Separately Managed Accounts (SMAs)

- **Designed for those seeking a customized investing solution based on your risk tolerance, liquidity needs and duration target.**
- **Monthly Liquidity**
- **Requires \$100 million minimum deposit**
- **Pre-Meeting with Portfolio Manager to set up Account and determine investing needs.**
- **Costs: Standard 6 basis points, plus yearly accounting charges of \$20,000 out of earnings (equivalent to 2 basis points.)**
- **Contact Deputy Treasurer Mark Swenson**



OPERATING UPDATES

New key phone numbers:

- Main number **602-542-7800**
- LGIP Line **602-542-7834**
- Mark Swenson **602-542-7877**
- Dale Stomberg **602-542-7833**





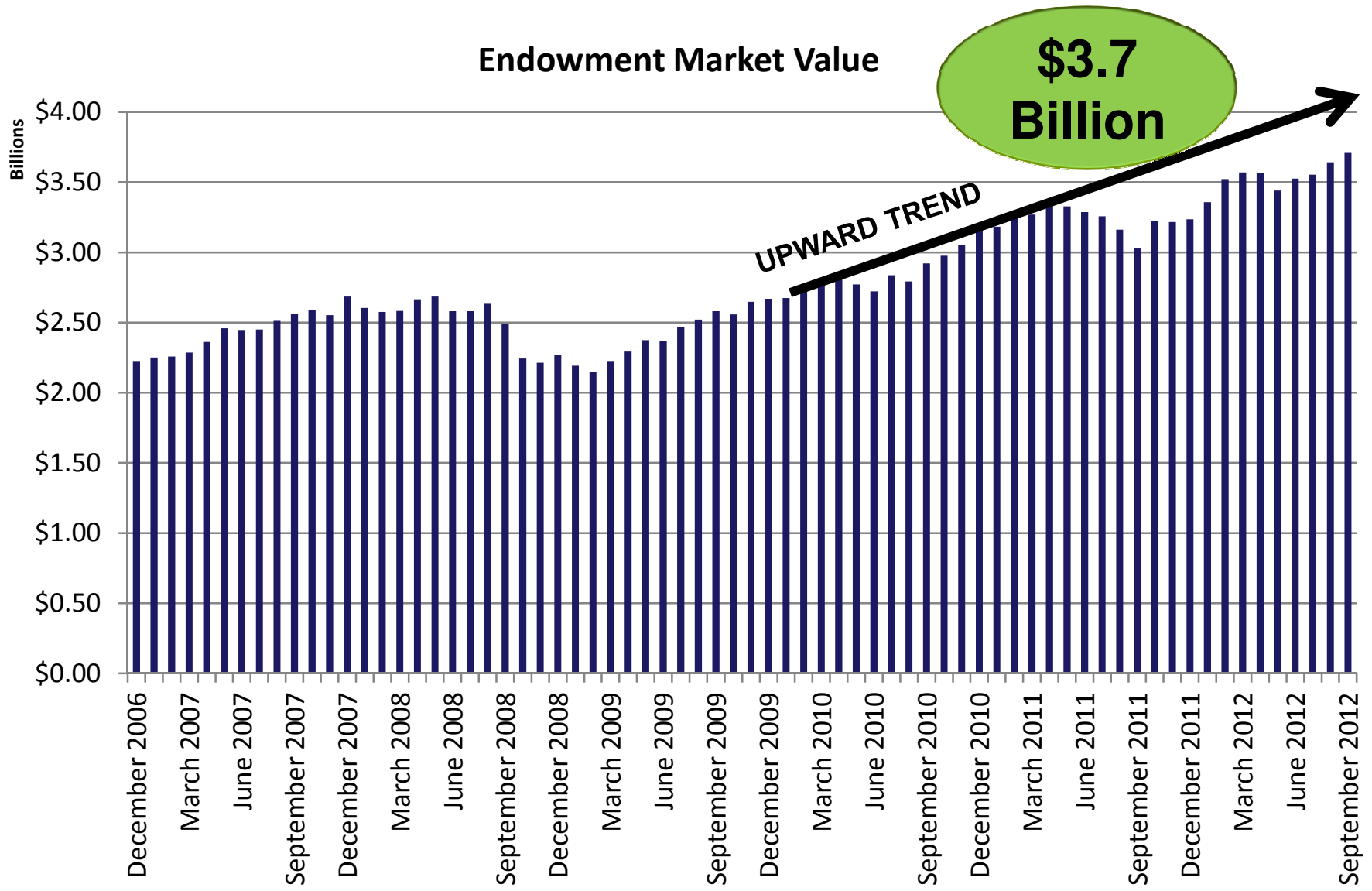
ENDOWMENT PERFORMANCE

Q1 FY2013

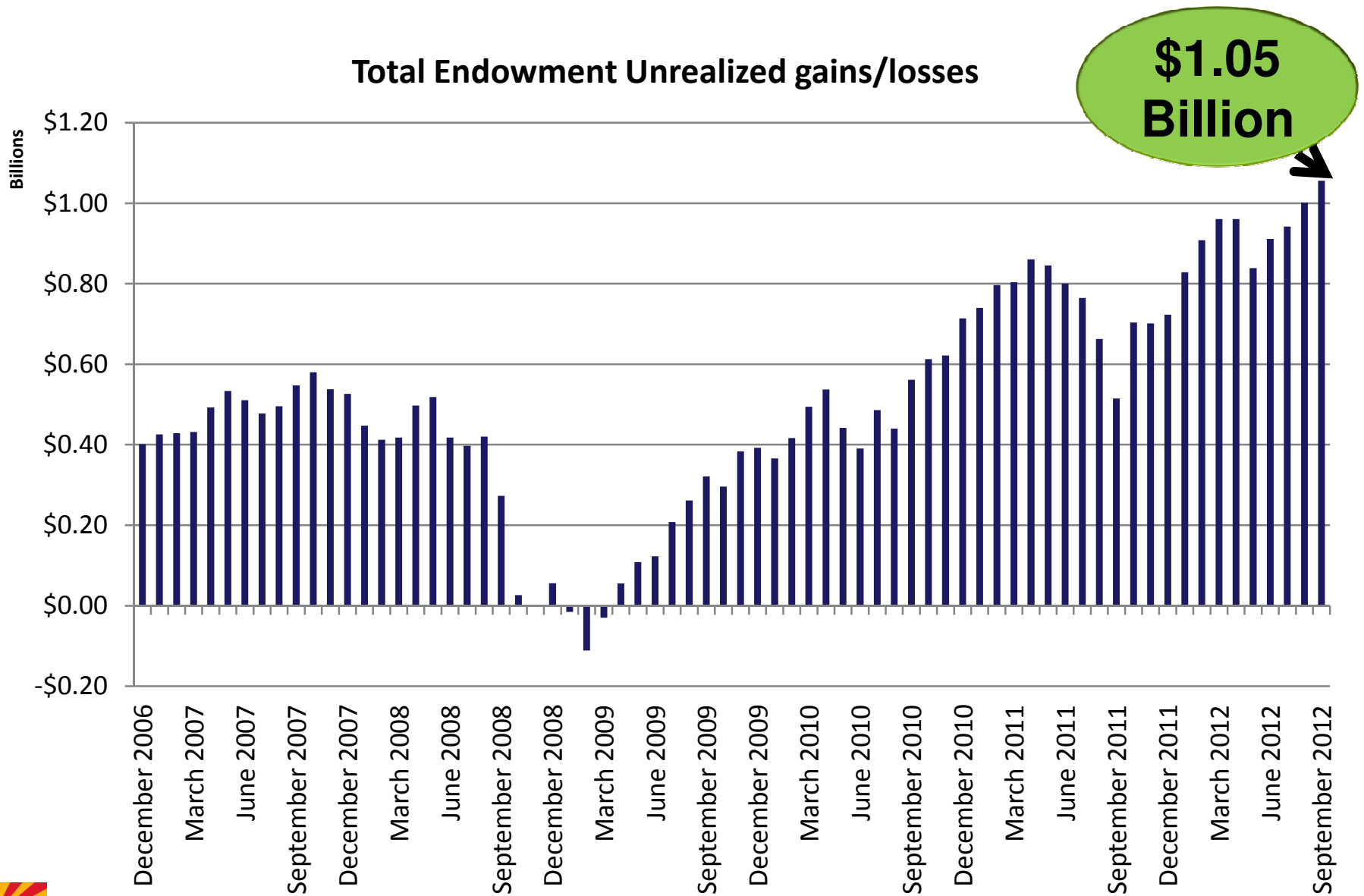
OFFICE OF THE ARIZONA STATE TREASURER



ENDOWMENT MARKET VALUE

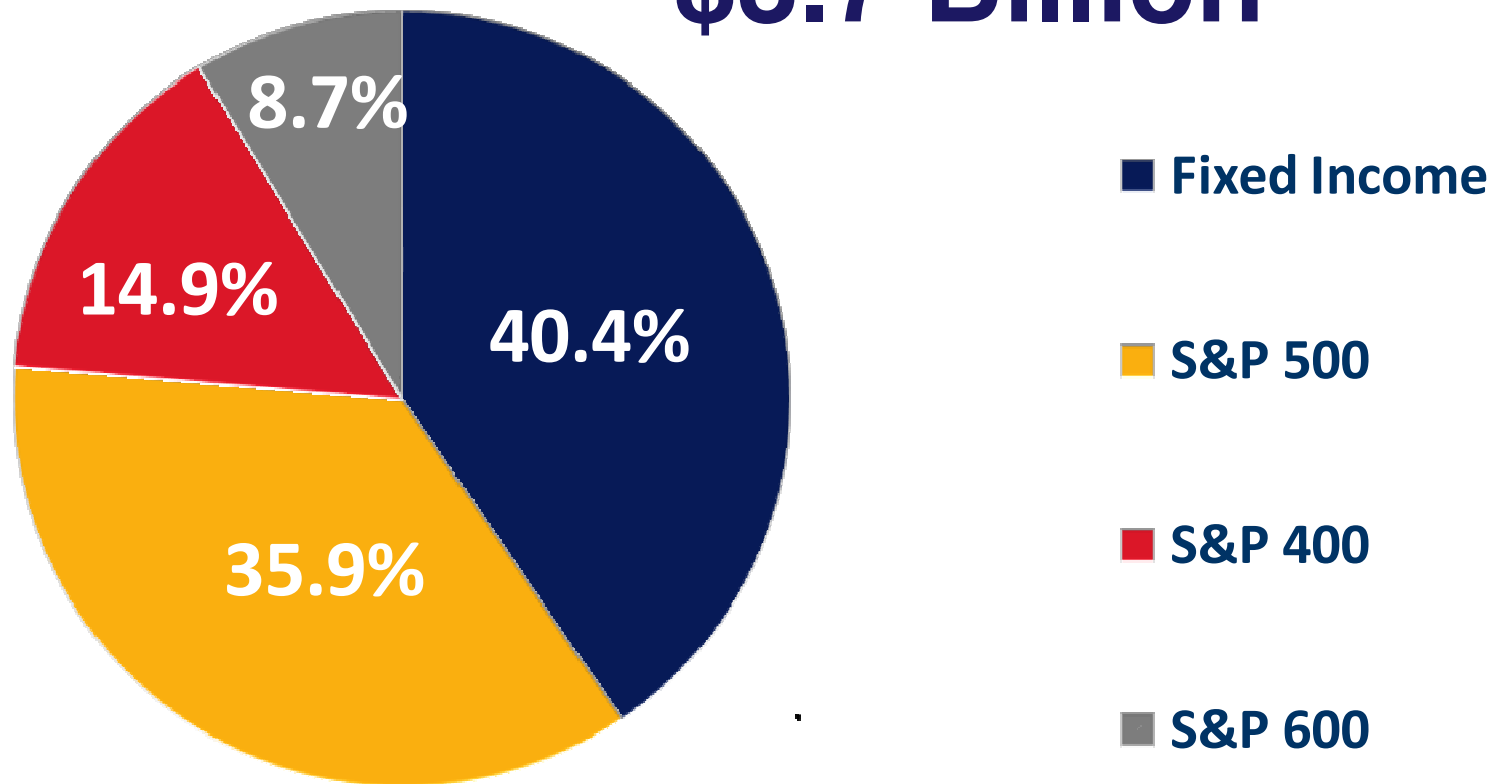


ENDOWMENT UNREALIZED GAINS



ENDOWMENT ASSET ALLOCATION

\$3.7 Billion



As of 9/30/2012



ARIZONA STATE TREASURER DOUG DUCEY

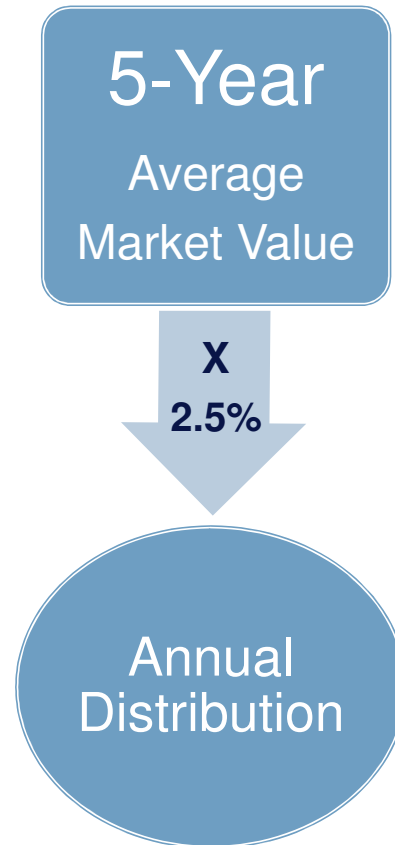


PROPOSED ENDOWMENT DISTRIBUTION FORMULA

OFFICE OF THE ARIZONA STATE TREASURER



SMOOTHER, CONSISTENT DISTRIBUTIONS



Takes 2.5% of the average monthly market value from each of the previous five years





STATE CASH FLOW

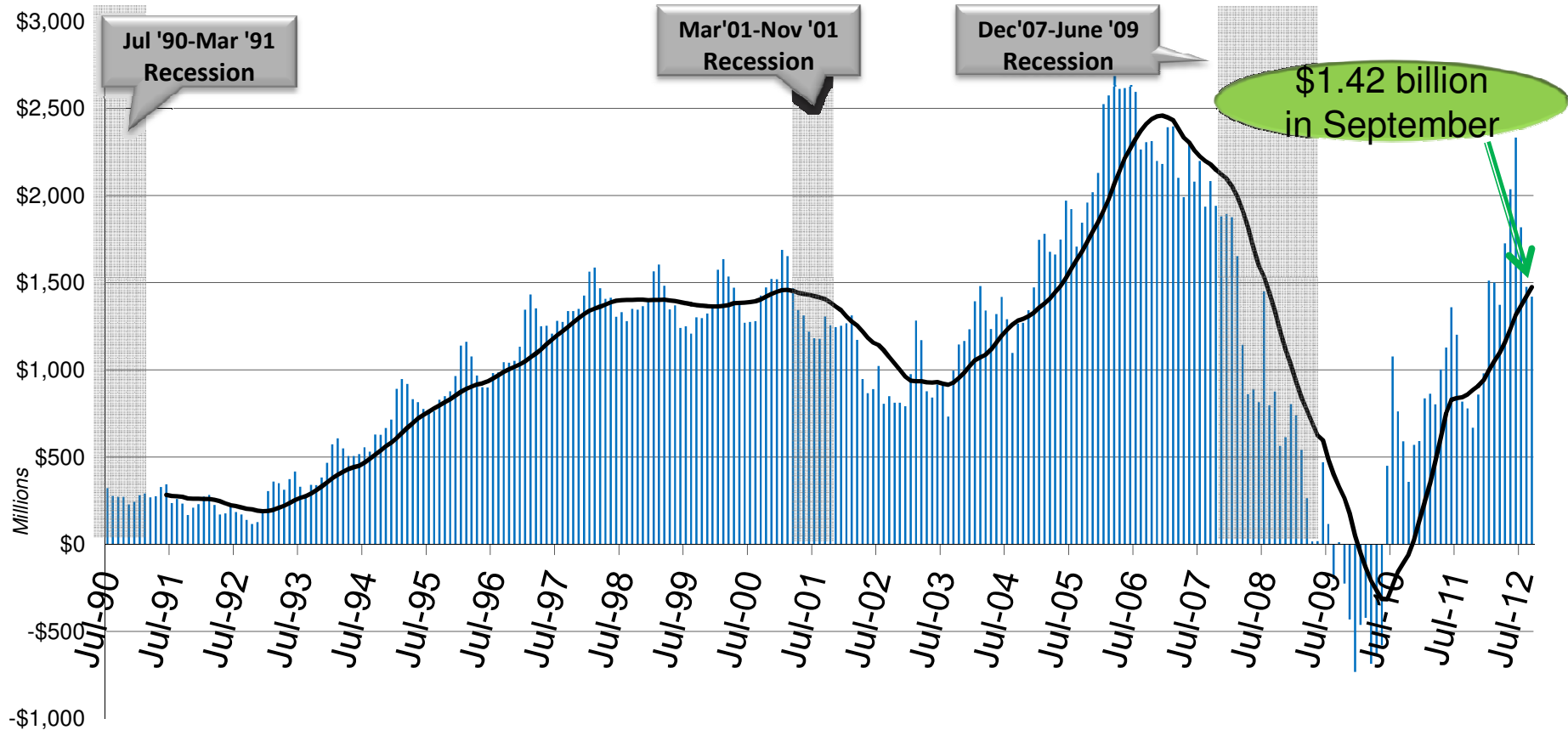
OFFICE OF THE ARIZONA STATE TREASURER



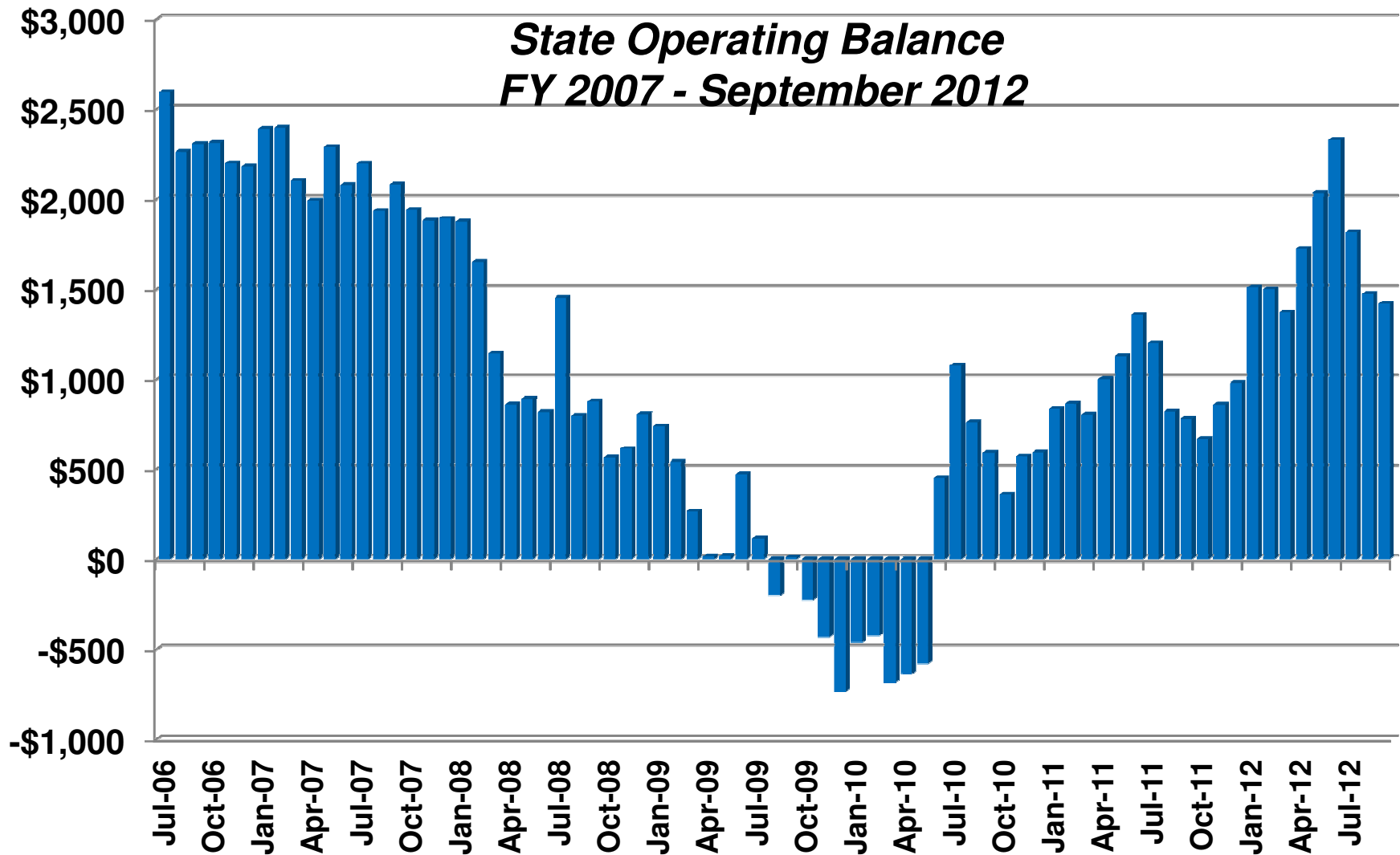
STATE CASH FLOW

TOTAL OPERATING ACCOUNT AVERAGE MONTHLY BALANCE

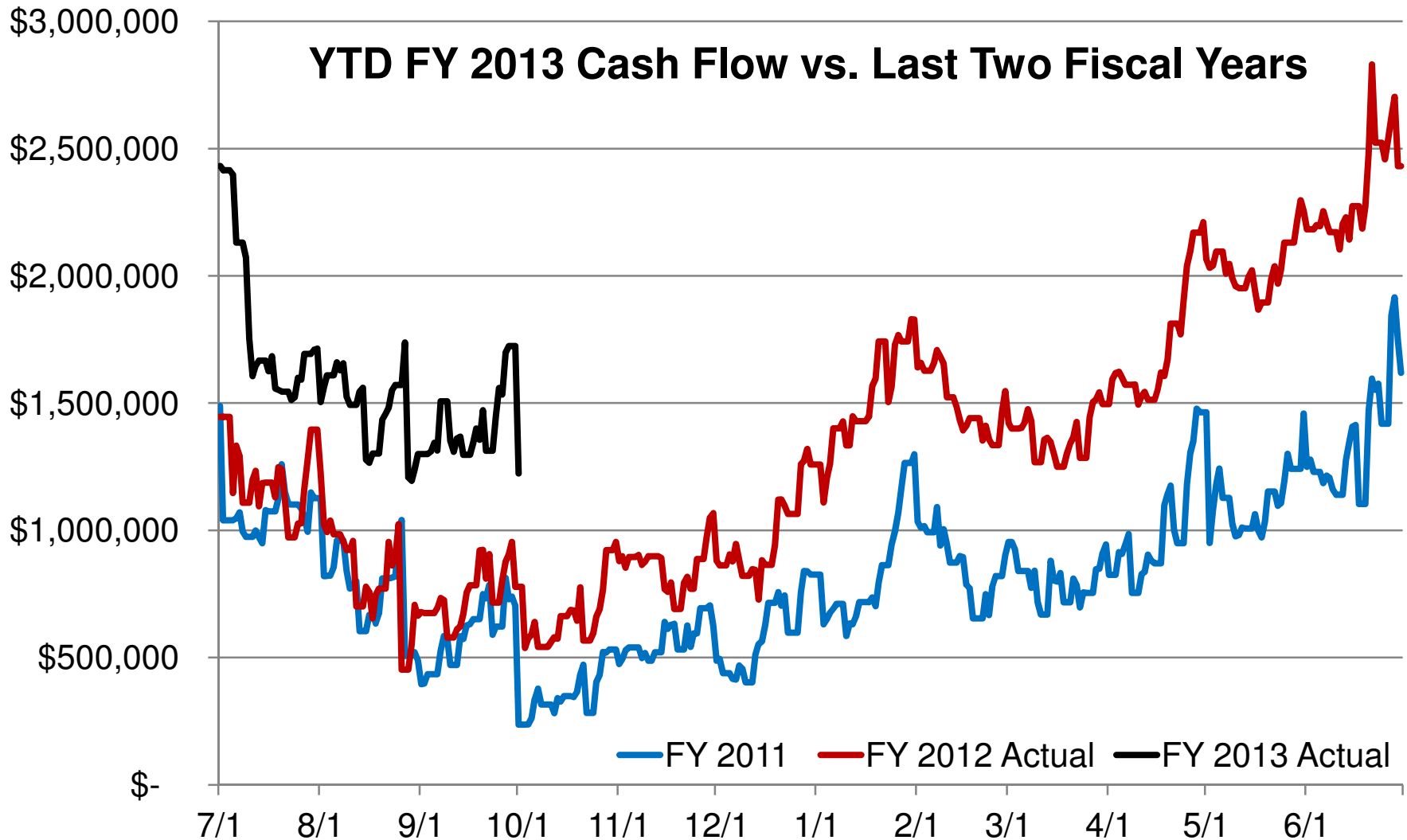
Up 70% in First Quarter YOY



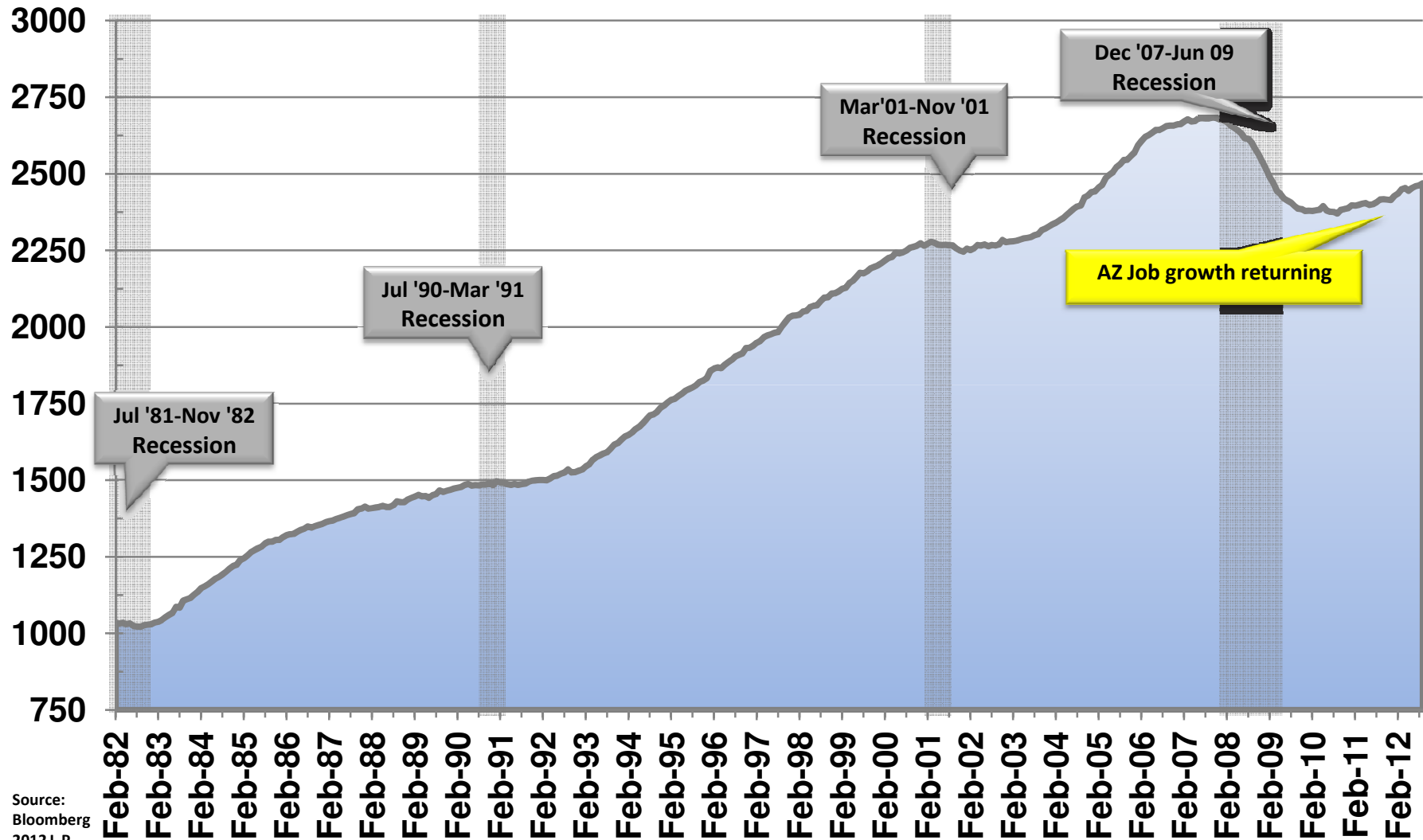
STATE CASH FLOW



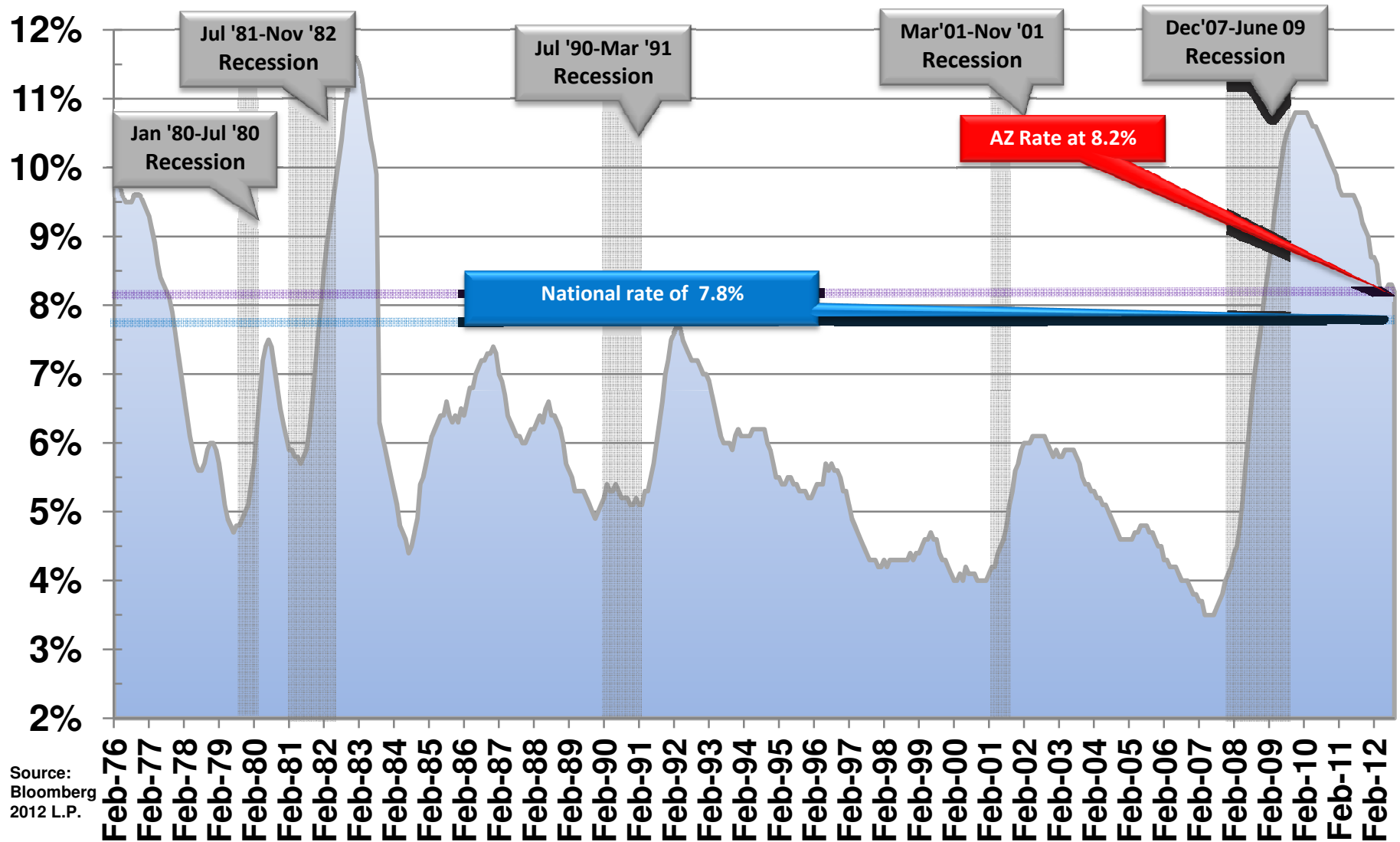
STATE CASH FLOW



AZ NON-FARM EMPLOYMENT



AZ UNEMPLOYMENT AT 8.2%



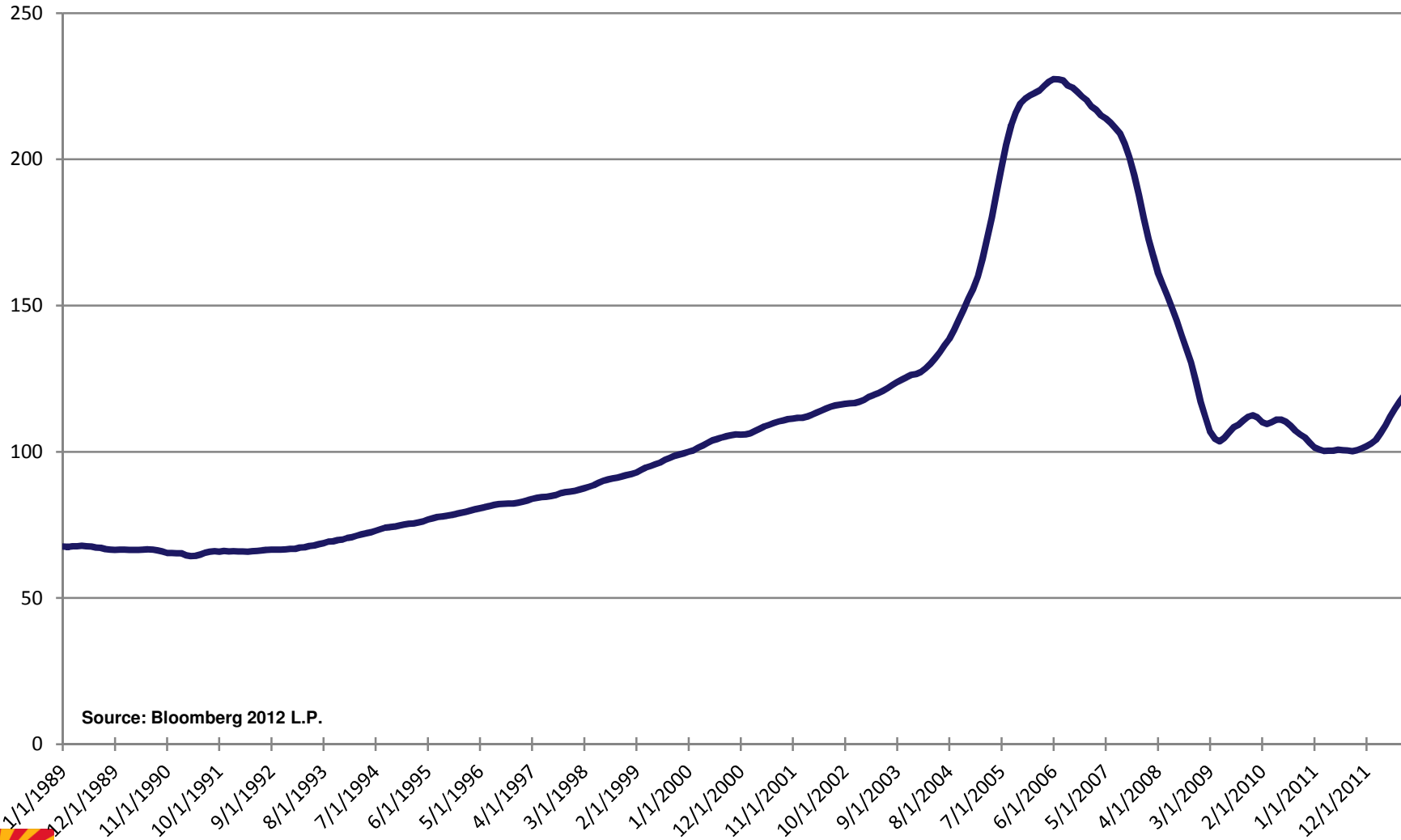
Source:
Bloomberg
2012 L.P.



ARIZONA STATE TREASURER DOUG DUCEY

AZ HOUSING PRICES

S & P/Case Schiller Housing Price Index for Phoenix





Guest Presentation:

Dr. Jim Paulsen, Chief Investment Strategist for
Wells Capital Management

OFFICE OF THE ARIZONA STATE TREASURER



Economic & Financial Market Update

November 2012

www.wellscap.com

James W. Paulsen, Ph.D., Chief Investment Strategist

WELLS CAPITAL MANAGEMENT



Older Demographics Have Altered Economic Recoveries in Three Major Ways!!!

1. Slower SPEED LIMIT!

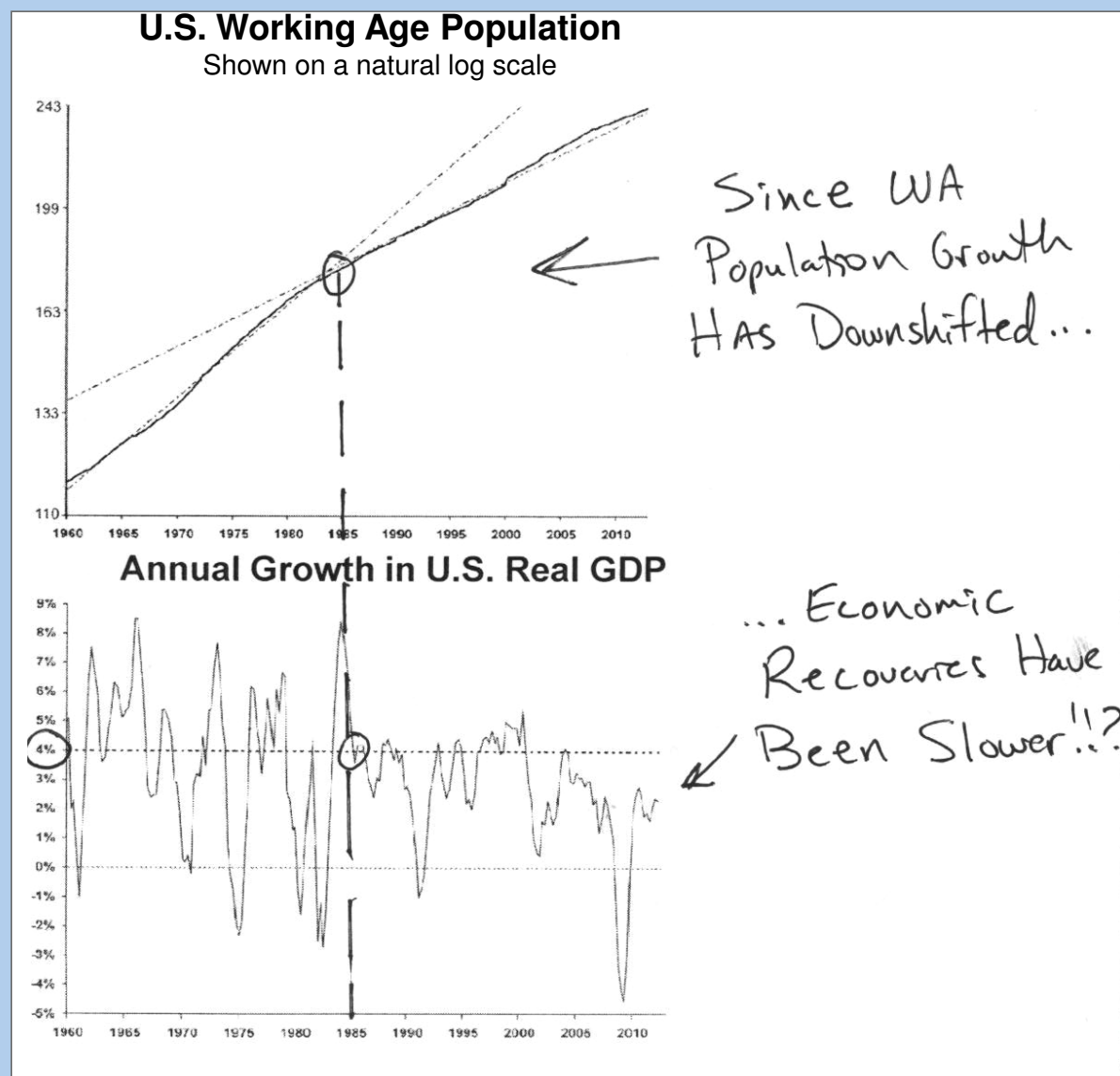
2. Delayed Recoveries!!

“Slow Starters... But, Long FINISHERS”

3. YEAR “4” GEARING!!?

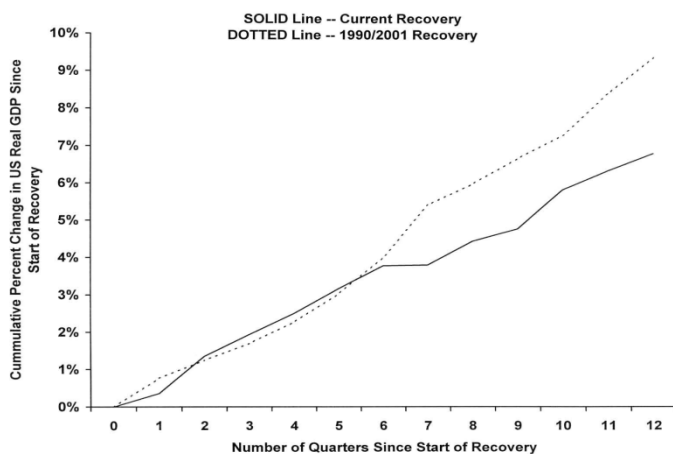


“New-Normal” Working-Age Population Growth!?!?

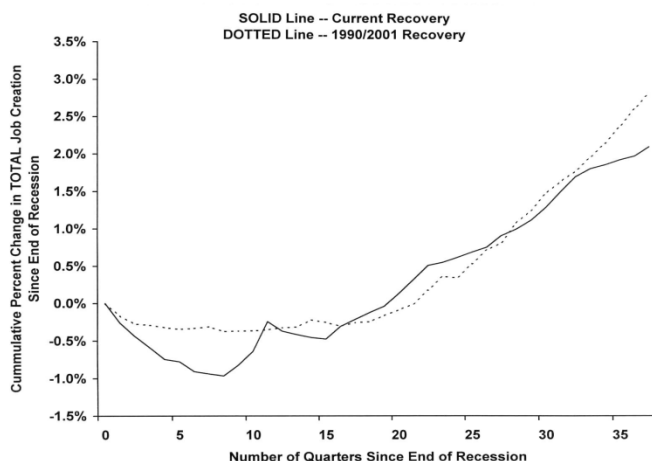


Contemporary Recovery Weaker, But Similar to 1991/2001 Pattern!?

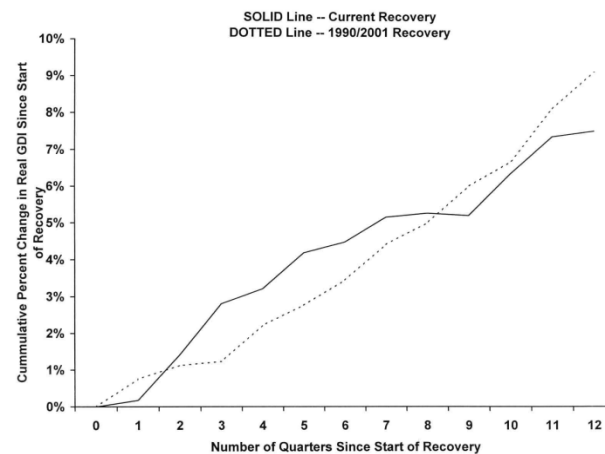
**Cumulative Percent Recovery Gain in Real GDP
Current Recovery vs. 1990/2001 Average**



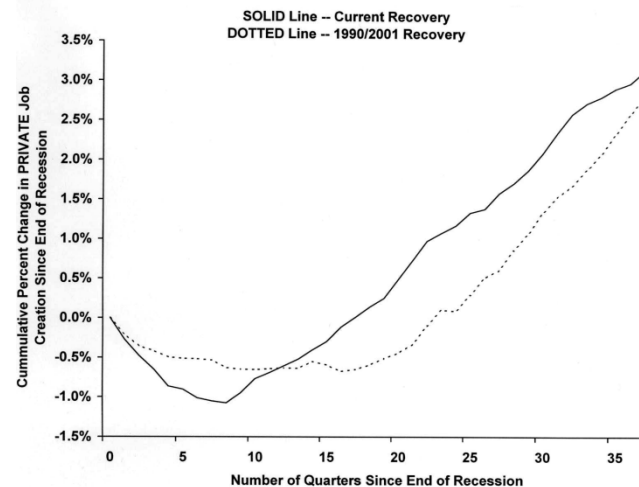
**TOTAL Cumulative Percent Job Creation
Current Recovery vs. 1990/2001**



**Cumulative Percent Recovery Gain in Real GDI
Current Recovery vs. 1990/2001 Average**

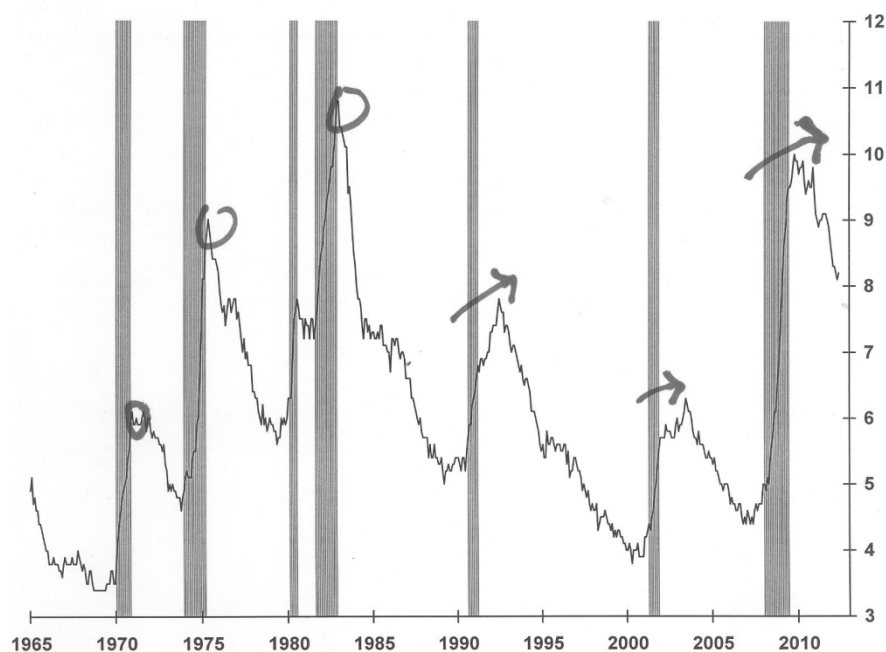


**Private Cumulative Percent Job Creation
Current Recovery vs. 1990/2001 Average**



Jobs & Confidence Recoveries Delayed!?!

U.S. Unemployment Rate & Recoveries

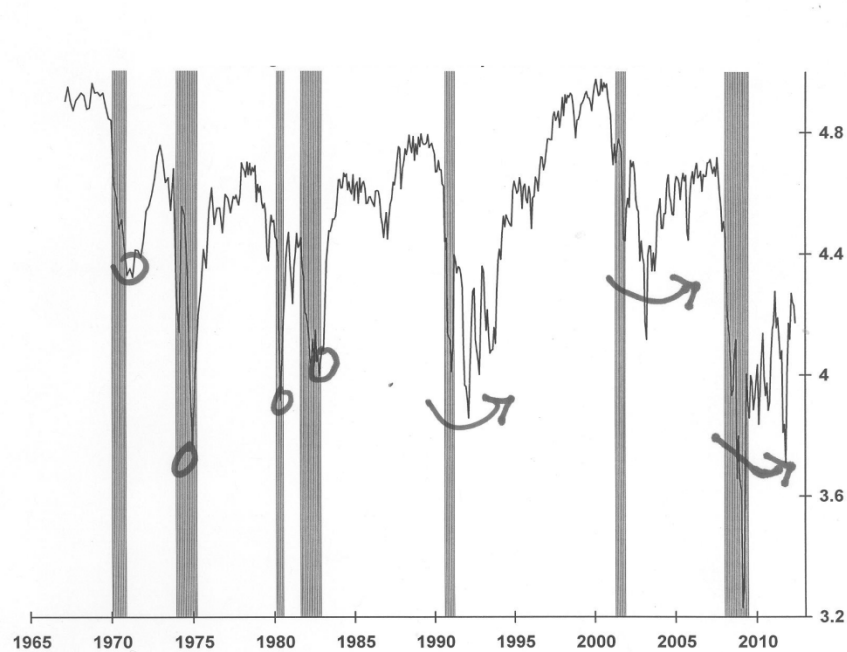


Consumer Confidence Index* & Recoveries

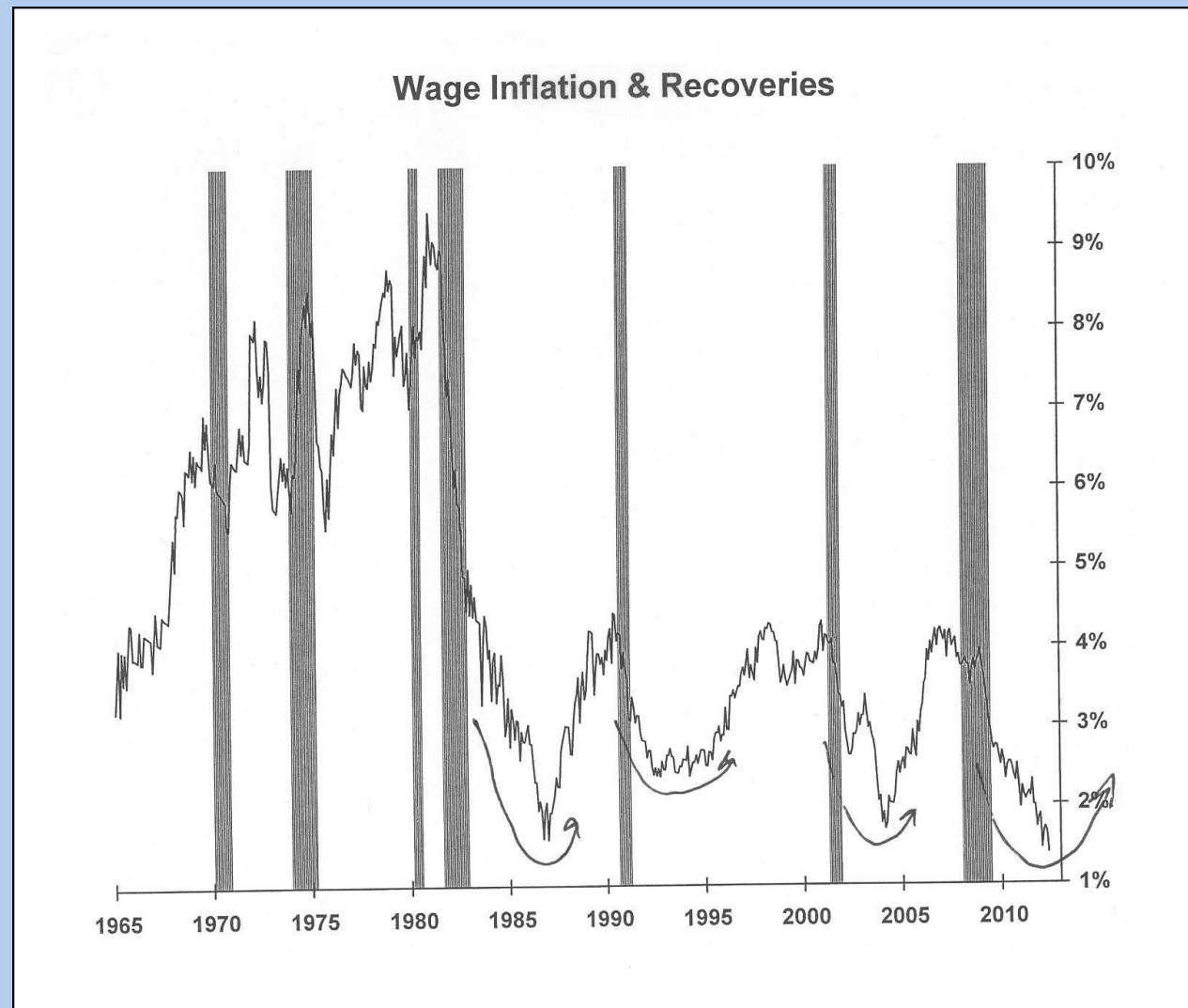
*Conference Boards Consumer Confidence Index.

Shown on a natural log scale.

Shaded areas represent recessions.

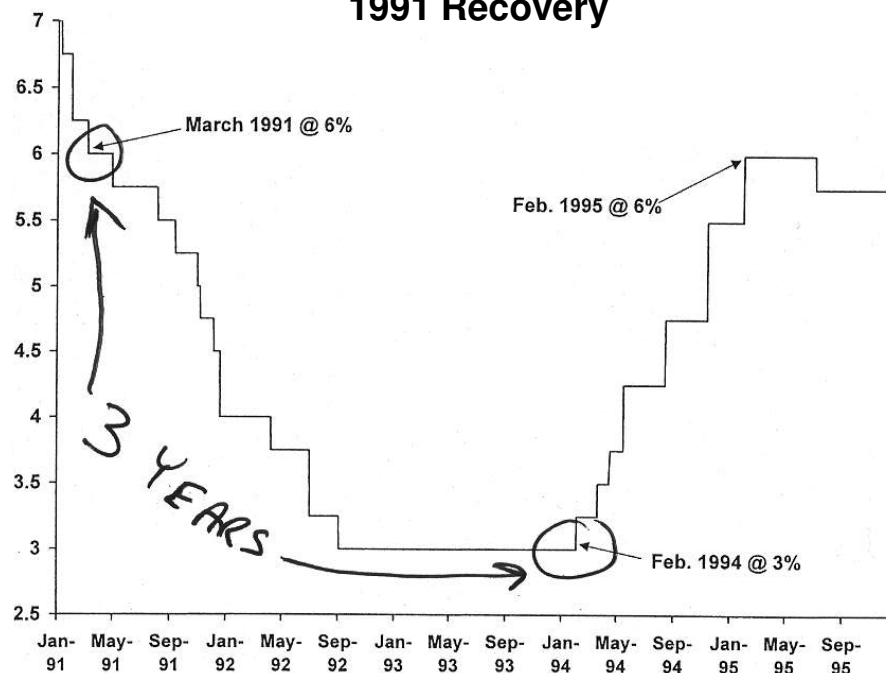


“DELAYED” WAGE/GAINS WILL SOON END?!??

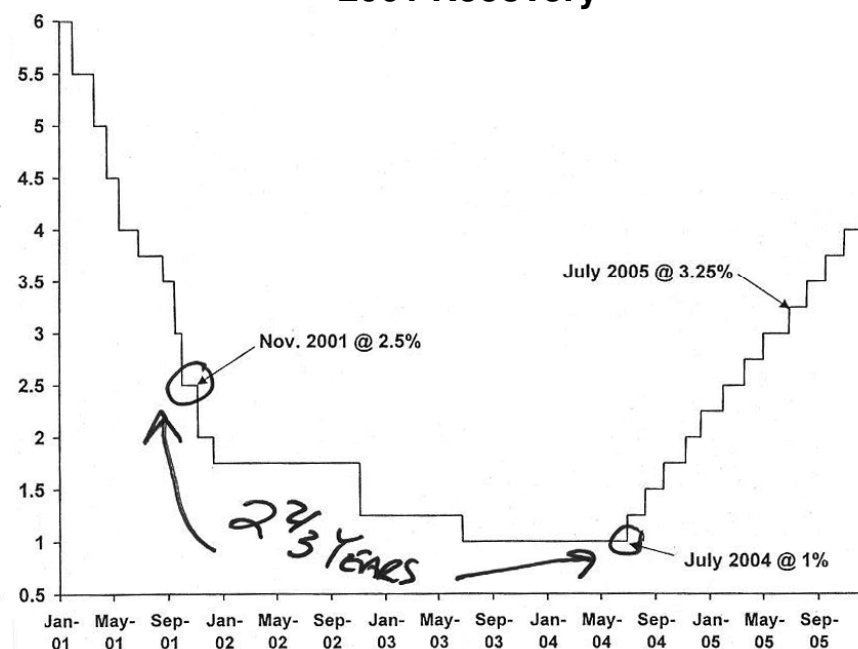


Federal Reserve Following Playbook of Last Two Recoveries!?!

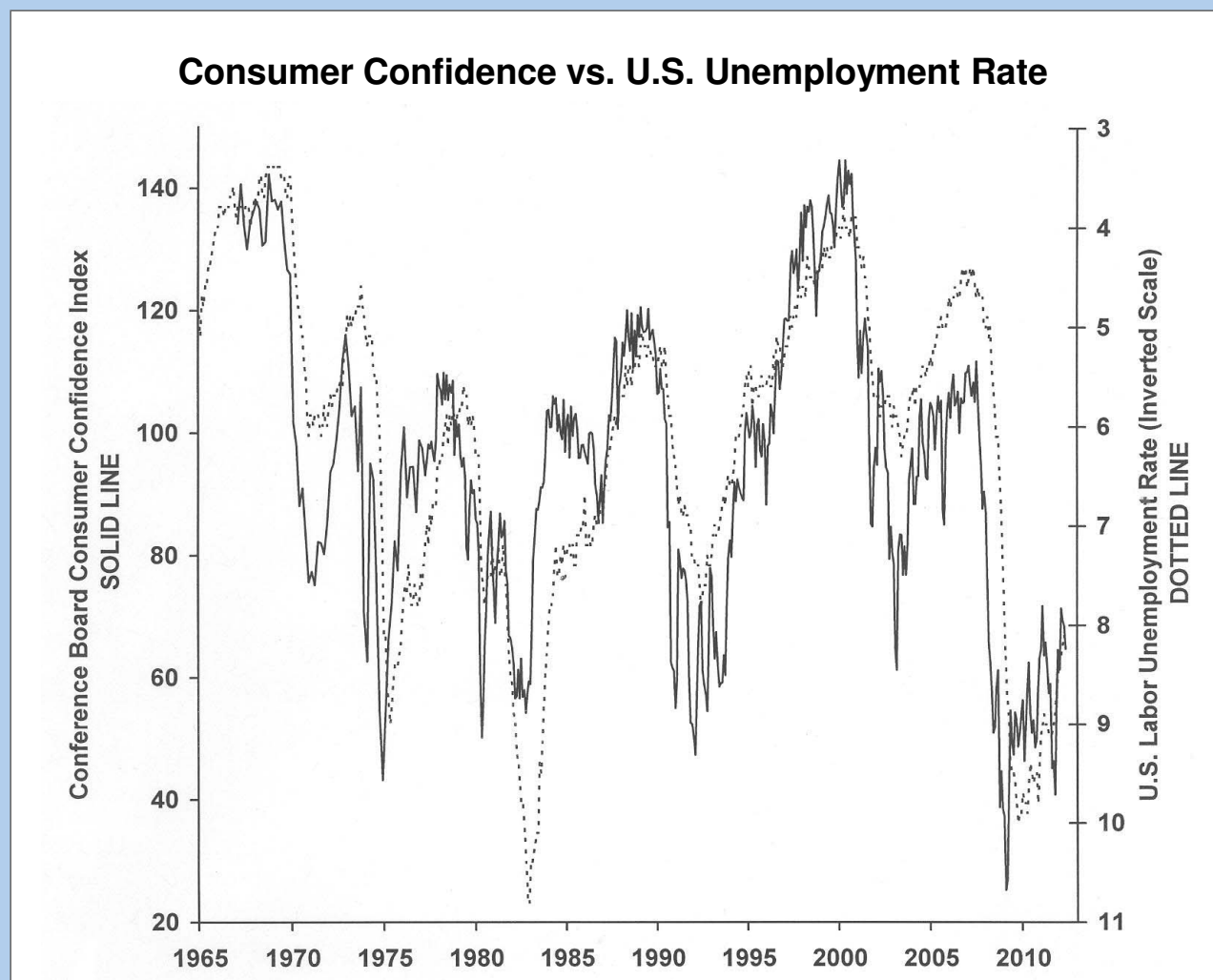
**Federal Reserve Policy Response
Fed Funds Rate
1991 Recovery**



**Federal Reserve Policy Response
Fed Funds Rate
2001 Recovery**

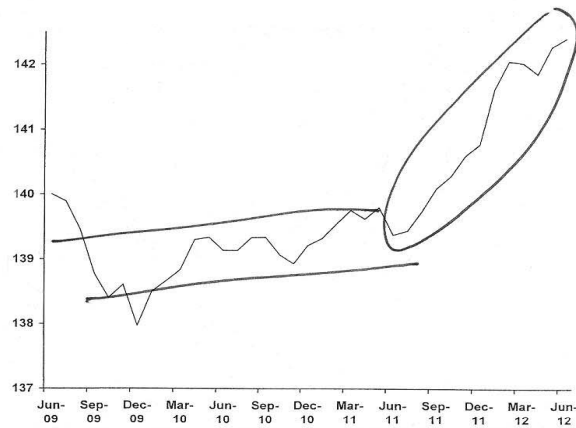


How to GEAR?? Jobs & Confidence!!!

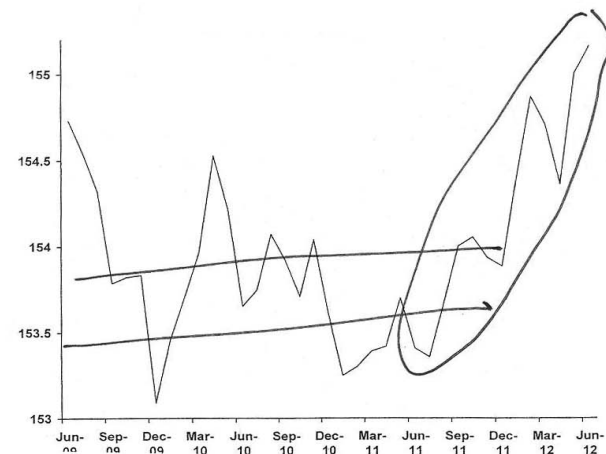


ECONOMY is GEARING: #1 JOB MARKET!!

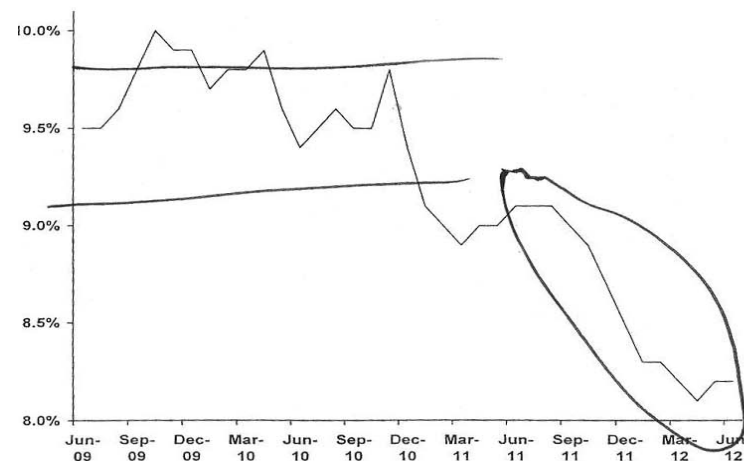
Total U.S. Household Employment
In Millions



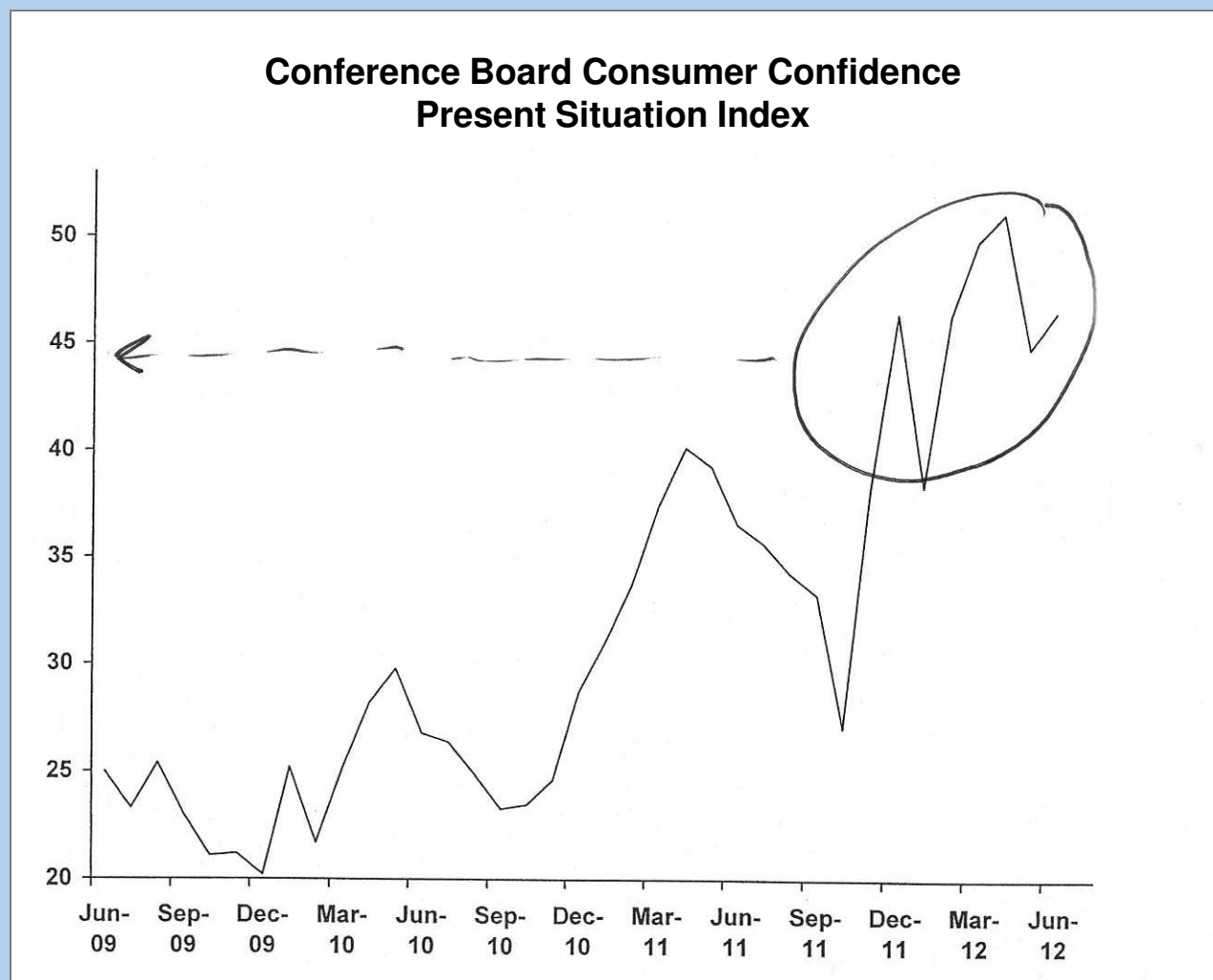
Total U.S. Labor Force
In Millions



U.S. Labor Unemployment Rate

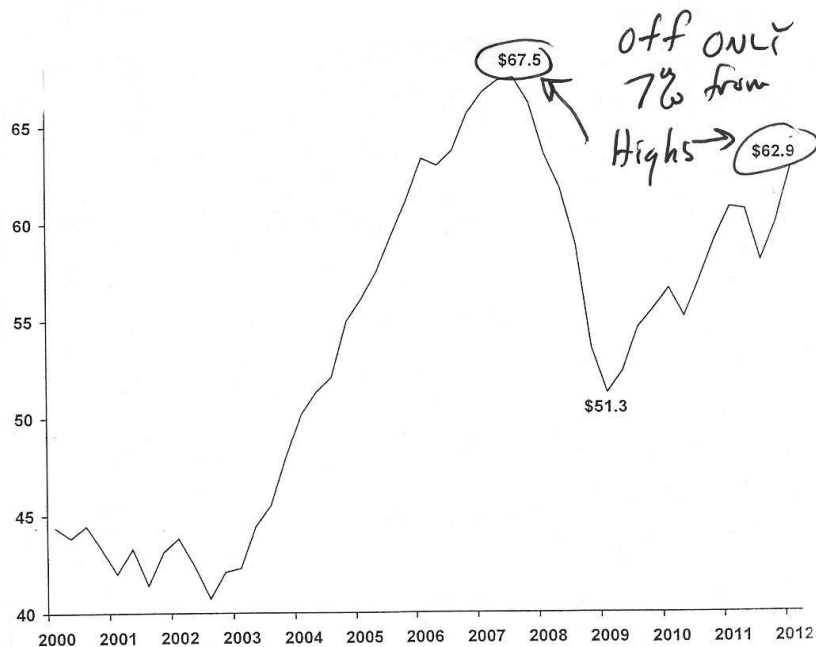


ECONOMY is GEARING: #2 CONFIDENCE!!

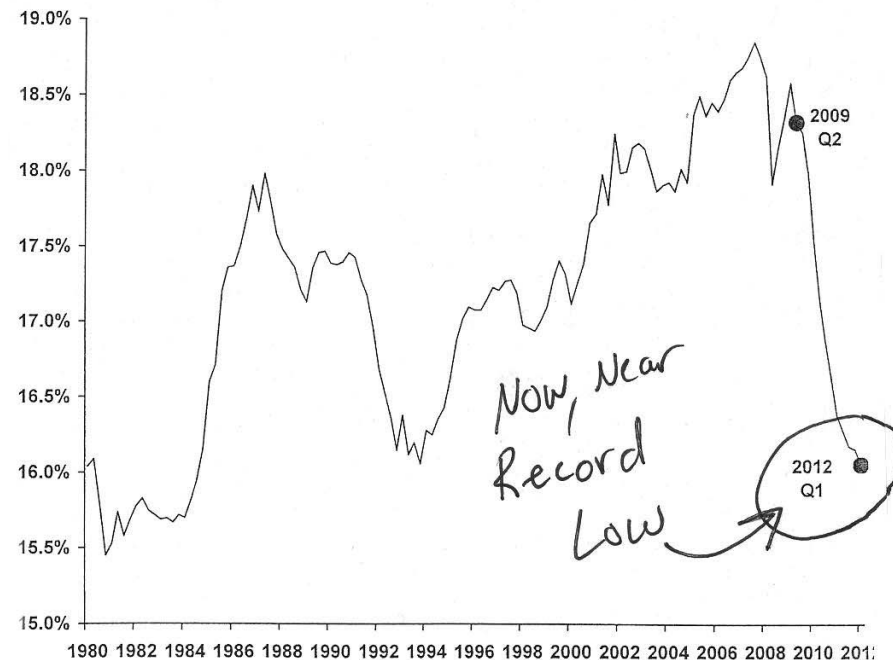


ECONOMY IS GEARING: #3 Net WORTHS & #4 Debt BURDENS!!

Total Household Net Worth
In Trillions of U.S. Dollars



U.S. Household Financial Obligations Ratio



ECONOMY is GEARING: #5 Housing Activity & #6 Home Prices!!

**National Association of Homebuilders
Market Survey Index**



FHFA U.S. House Price Index

